

United States Department of State

*Under Secretary of State for
Security Assistance, Science and Technology*

Washington, D.C. 20520

June 24, 1982

CONFIDENTIAL
ATTACHMENTS

DDI- *5337-82*

MEMORANDUM

TO: DOE - Mr. W. Kenneth Davis
CIA - Mr. Henry S. Rowen

FROM: James L. Buckley *arb*

SUBJECT: Energy Alternatives to Soviet Gas

As you know, my recent mission to Europe had two objectives, the immediate one being to attempt to work out an arrangement to restrain credit to the Soviet Union. A secondary but by no means less important objective was to convince the Europeans to develop alternative, non-Soviet sources of energy.

With respect to this objective, I think we have helped focus thinking, and were instrumental in concentrating attention on the most practical potential sources in the North Sea. Ambassador Evan Galbraith has been designated as the man to follow up on the spot. He is presently drawing on his investment banking experience and considerable contacts to bird dog the situation, working primarily with the private companies (the gas distributors and North Sea Exploration Licensees) who have a direct financial stake in the early development of North Sea alternatives. He expects in this manner not only to pull together an economically feasible approach, but to identify the specific political bottlenecks that will have to be overcome in order to bring any proposal to fruition.

Attached is a copy of Van's most recent cable detailing his progress, as well as a report of his recent meeting with Ruhrgas. The account of his meeting with representatives of Gaz de France will be forwarded to you as soon as it arrives in the Department.

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In the meantime, I would like to set up an informal group consisting of the three of us plus Lionel Olmer, Fred Ikle and Norm Bailey to monitor the progress and provide Van with the necessary backup, relying here on the excellent work being done by the team put together by Bill Martin of the NSC.

I look forward to meeting with you soon and will be in contact with you to set an agreeable time.

Attachments:

1. Paris 21520 (Confidential)
2. Memorandum of Conversation dtd 6/2/82,
(Confidential)

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DEPARTMENT OF STATE

TELEGRAM

PAGE 01
ACTION OES-09

PARIS 21520 211825Z

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INFO OCT-00	COPY-01	ADS-00	AID-07	INR-10	EUR-12	SS-10
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OMB-01	STR-14	ACDA-12	ICAE-00	SP-02	SPRS-02	/125 W

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FOR JAMES BUCKLEY FROM AMBASSADOR GALBRAITH

PLEASE PASS TO COMMERCE FOR OLMER

E. O. 12065: GDS 6/21/88 (GALBRAITH, EVAN G.) OR-FM
 TAGS: ENRG, UK, N
 SUBJECT: NORWEGIAN GAS DEVELOPMENT REPORT NO. 1

REF: STATE 122029

1. (C - ENTIRE TEXT.)

2. THE EXTENSION OF THE EMBARGO TO FOREIGN LICENSEES SHOULD BE OF SIGNIFICANT HELP TO THE DEVELOPMENT OF NORWEGIAN GAS. THE SOVIET UNION AS A SOURCE IS MADE TO LOOK LESS RELIABLE AND THE RELIABILITY OF A SOURCE IS VERY IMPORTANT TO THE GAS DISTRIBUTORS. DELAYING THE FIRST SIBERIAN PIPELINE WILL MAKE EUROPEAN GAS DISTRIBUTORS WARY ABOUT COMMITTING THEMSELVES TO THE SECOND PIPELINE.

3. THE FUTURE MARKET BEING THE KEY TO THE FUTURE OF NORWEGIAN GAS, I MET WITH REPRESENTATIVES OF GAZ DE FRANCE, AND RUHRGAS, THE MAJOR DISTRIBUTORS IN EUROPE. (REPORTS OF THESE MEETINGS HAVE BEEN POUCED TO THE DEPARTMENT.) BOTH ARE ANXIOUS FOR NORWAY TO GO AHEAD AND BOTH REALIZE THAT THE DEVELOPMENT COSTS MAY MAKE THE GAS MORE EXPENSIVE THAN SOVIET GAS. THEY GAVE NO PRICE INDICATIONS OTHER THAN IMPLYING NORWAY MIGHT COMMAND SOME SORT OF PREMIUM. BOTH THESE COMPANIES ENTHUSIASTICALLY OFFERED TO HELP IN ANY WAY THEY COULD. THEY MIGHT BE VERY VALUABLE ALLIES FOR SOPHISTICATED STUDIES, FOR EXAMPLE, A SENSITIVITY STUDY TO MAKE A CASE TO THE NORWEGIAN GOVERNMENT FOR TAX RELIEF. (STUDIES BY THE OWNERS OF THE FIELDS ARE ALWAYS SUSPECT IN EYES OF THE TAX COLLECTOR.)

4. I HAVE TALKED TO SHELL IN LONDON BY TELEPHONE AND HAVE A DATE TO SEE THEM THERE ON JUNE 30. I ALSO PLAN TO SEE THE UNDERSECRETARY FOR GAS OF HMG AND HOPEFULLY BELGRAVE. SUBJECT TO WHAT I LEARN AT THESE STOPS, I THEN THOUGHT I WOULD SEE SOME EQUIPMENT SUPPLIERS AND PERHAPS SOME BANKERS BEFORE GOING TO SEE THE NORWEGIAN GOVERNMENT. THE SUPPLIERS MIGHT BE HELPFUL IN PUTTING TOGETHER AN EXPORT FINANCING SCHEME. MY FIRST GOAL IS TO BE SUFFICIENTLY TUTORED TO BE ABLE TO DISCUSS THIS PROJECT WITH YOU AND OTHERS IN WASHINGTON IN EARLY OR LATE AUGUST, WHICHEVER SUITS YOU.
 GALBRAITH

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MEMORANDUM OF CONVERSATION

ECC

CR

c. France
c. GermanyPARTICIPANTS: Dr. Jur. Klaus H. Arntz, Vice President,
RUHRGAS

Evan L. Galbraith, American Ambassador, Paris

M. Alexandra Sundquist, American Embassy, Paris

DATE: Wednesday, June 2, 1982

PLACE: The Ambassador's Residence

SUBJECT: Development of Norwegian Natural Gas Reserves
as an Alternative to Soviet Gas

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Ambassador Galbraith invited Dr. Arntz for preliminary discussions on Norwegian gas reserve development as part of USG efforts to discourage European reliance on Soviet gas.

Dr. Arntz stated that Ruhrgas, based in Essen, is the largest bulk supplier of natural gas in West Germany. Ruhrgas is a wholly privately owned corporation, with 25 percent equity from British Petroleum, 30 percent from a Shell/ESSO joint venture, and the remainder from Ruhrkohle, Mobil, Esso, Hoesch and Texaco, all of which are either suppliers to or customers of Ruhrgas.

Last year, Ruhrgas sales were DM 12.7 billion (US dollars 5.4 billion), to some 300 customers which fall into three categories: 60 percent are gas redistribution companies, 21 percent household distributors, and 19 percent industrial customers. Ruhrgas sees its major potential for expansion in the area of private households.

Regarding gas imports from the USSR, Dr. Arntz noted that Germany produces domestically 32 percent of its gas consumption, and imports 32 percent from the Netherlands, 16 percent from Ekofisk (North Sea), and 20 percent from the Soviet Union. At present, gas represents 16 percent of West

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GDS 6/9/88 (SUNDQUIST, M. Alexandra) OR-E

Germany's primary energy consumption, and should rise to 18 percent by the end of the decade. By that time, Soviet gas would account for 30 percent of gas consumption and 5.4 percent of primary energy consumption. Dr. Arntz said that Dr. Enseling, Head of the Gas Purchase Department of Ruhrgas, had undertaken a careful risk analysis of increased gas purchase from the Soviet Union, and had found it to be quite low given the following considerations:

1. The USSR would be unable to cut supplies to one country at a time.
2. West Germany was expanding its underground storage facilities very considerably.
3. Ruhrgas contracts are "interruptible", and its customers are able to switch fuels within very short notice.

Dr. Arntz said that commercial aspects of the Soviet pipeline were favorable to West Germany. He indicated, however, that some of the expectations for materials orders were at a lower level than anticipated. Many German companies, he noted, were dependent on Soviet contracts to meet their payrolls, notably Manessman and AEG Telefunken. Dr. Arntz said that in terms of West Germany's own energy security, the Soviet deal was also attractive by allowing to prolong the life of indigenous gas reserves.

The Ambassador said he had been asked by the Secretary of State to undertake consultations with European and industry leaders to determine the financial and technical feasibility of accelerated development of Norwegian gas as an alternative to increased dependence on Soviet supplies. While this would be expensive, primarily in connection with the 31/2 and North reserves, the necessary financing could be assisted through tax and other incentives. Addressed on its economic and financial merits, the project should be viable and generate a major demand for equipment sales. If initial results of consultations are positive, an ad hoc technical working group would be established to consult with European energy officials on the Norwegian potential for enhanced energy security. A triangular deal involving Norway, the Netherlands and the United Kingdom is one possible venue for expanded gas supplies to Western Europe. The USG could help facilitate such arrangement by negotiating the necessary approvals and generally expediting matters.

Dr. Arntz said he would relate the discussion to Ruhrgas senior management and offered to assist with further technical consultations. On the development of Norwegian reserves, he stated that many experts consider Norway "Europe's gas future", and that if the project were found to be commercially viable "German banks would queue up to finance it."

Drafted: GEP:AGS:undquist:bl 6/9/82

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